EUROPEAN ASSOCIATION OF COOPERATIVE BANKS
GROUPEMENT EUROPEEN DES BANQUES COOPERATIVES
EUROPÄISCHE VEREINIGUNG DER GENOSSENSCHAFTSBANKEN

EUROPEAN REPO COUNCIL

EUROPEAN SAVINGS BANKS GROUP
GROUPEMENT EUROPEEN DES CAISSES D'EPARGNE
UROPÄISCHE SPARKASSENVEREINIGUNG

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Michael NOONAN TD
Minister of Finance of the Republic of Ireland
E-mail: minister@finance.gov.ie

Brussels, 21 May 2013

Dear Minister Noonan,

On behalf of the undersigned associations, the Association of International Life Offices (AILO), the European Association of Cooperative Banks (EACB), the European Banking Federation (EBF), the European Fund and Asset Management Association (EFAMA), the European Repo Council (ERC), the European Savings Banks Group (ESBG), the Fédération Européenne des Conseils et Intermédiaires Financiers (FECIF), the Federation of European Securities Exchanges (FESE), and the International Capital Market Association (ICMA), we write to the ECOFIN Council to express our combined industry's concerns over the introduction of the proposed Financial Transaction Tax (FTT) under the enhanced cooperation procedure in 11 Member States and its wider effects across the EU and even beyond.

The undersigned associations have taken note of the original intentions of participating Member States and recognise that an additional source of revenue would be beneficial to the state of public finances in many Member States. Nevertheless, we hold serious reservations that policymakers are persevering in putting forward a measure that can clearly unbalance and even harm the internal market for financial services and distort competition among operators, merely on the basis of their location in (or connexion to) a particular group of Member States.

The industry strongly believes that EU policy-makers are seriously underestimating the dramatic consequences that the European Commission's proposed FTT will have on European financial markets and by extension on growth and employment in Europe and the European economy as a whole. Particularly at a time of unprecedented economic uncertainty, introducing an FTT based on a territorial scope limited to 11 Member States will put an extremely high pressure on these countries' financial services operators and will significantly increase their governments' dependence on financial markets outside the FTT zone and outside Europe. Numerous governments, central banks, independent research analysts, financial market experts, tax experts, and prominent market commentators have expressed their concerns over such a tax and broadly share the industry's views of the damaging consequences. The negative implications of the proposed FTT are well documented, and many shortcomings have been identified in the Commission's impact assessment.

The scope of the proposed FTT is far reaching. First, it will apply to the broad population of financial institutions, encompassing banks, asset managers, insurers, collective investment vehicles and other savings products, pension funds, and regulated markets with no exemptions available for the different types of activity carried on. Its application to a very wide range of products and transactions is likely to reduce the volumes transacted in the countries concerned, and thus impact the liquidity of secondary markets, which include both regulated trading venues and over-the-counter (OTC) activity.

With such a broad-based approach, policymakers are proposing to adopt an FTT regime which will impact negatively financial activities that are essential to the functioning of financial markets and our economy as a whole - most notably:

- The issuance and secondary market purchase of sovereign bonds, used by governments to finance their budgets;
- The conclusion of derivatives contracts, which are used by financial institutions and companies to hedge their risk exposures;
- Repurchase agreements which are key to the provision of liquidity to markets, in bank lending activities and in the conduct of monetary policy as well as to the efficient movement of collateral in the markets. The flat rate structure of the tax irrespective of maturity means that it will have a disproportionately high impact on the short term markets, incl. market making activities;
- Corporate access to finance, as the FTT will severely damage issuers' access to capital and investors' access to quality investment opportunities by increasing the cost of secondary market trading in participating Member States;
- Intra-group transactions, which are vital for a proper liquidity and capital allocation within a group; and
- European market's dynamism, by taxing market making activities, which are key in the provision of liquidity to markets.

The cascading effect makes the effective tax rate of the FTT on securities much higher than the headline rate of 10 bp – in some cases this may be as much as ten times higher – because of the chain of trading and clearing that lies behind most securities transactions. Indeed, a purchase of securities on a trading venue or OTC usually involves a sale and purchase by a number of parties, including market makers, brokers, clearing members and the central counterparty to the clearing system. Each transaction could be subject to the FTT, with only the central counterparty being exempt. In a similar way cascading effects may arise where transactions are carried out within a group or within decentralised sectors or within highly intermediated distribution markets, such as the single European market for UCITS funds. For example, the FTT will also apply when financial instruments are merely transferred between separate entities of a group or a decentralised sector. Equally the FTT will apply to entities distributing financial products to consumers in the Single Market. The negative consequences of the tax will be proportionate to its huge effective magnitude and will dis-incentivise on-exchange trading and clearing, contrary to regulatory reforms implementing the G20 objectives whilst the real economy will mostly have to bear the additional costs arising from the FTT.

Financial institutions around the world will continue to seek to execute transactions at the lowest possible cost in serving their customers. Given the extraterritorial reach of the proposed FTT outside its participating Member States, the imposition of a FTT will deter persons outside FTT jurisdictions from doing business with such financial institutions within the FTT jurisdictions. If the FTT is adopted as proposed, financial institutions the world over can be expected to reduce their exposure to financial institutions within FTT jurisdictions and to securities within the scope of the FTT, with a commensurate decline in business executed with such institutions and in such securities. We expect the FTT will result in a significant decrease in market volumes, notably from market-makers, and a massive reduction of derivatives volumes. Given its role in supporting economic activity, it would be imperative not to harm the important function of market making activities. In jurisdictions where business is still executed, capital markets will likely require rate or price adjustments for transactions subject to the FTT. The end result would likely be a reduction in the profitability, size and strength of financial institutions within the FTT jurisdictions and hence in their ability to channel funding between investors and issuers in the real economy.

Furthermore, there is an inherent contradiction in the proposed method to tax financial transactions across the EU, which is not uniform and consistent and will create a fragmentation between FTT jurisdictions and non-FTT jurisdictions. This will jeopardise the transmission of monetary policy and is not consistent with the EU's goal of a single market and the regulatory objectives (for example in the desirability of collateral usage) which have been reinforced to ensure financial stability in the EU.

The proposed FTT would not only lower overall tax revenues, but also unfairly marginalise financial institutions in the FTT jurisdictions, with a consequent detrimental effect on the non-financial economy within these jurisdictions. The tax will hamper the ability of companies, borrowers and investors to access finance from capital markets. In the end, we firmly believe that the costs of reduced economic activity in the FTT jurisdictions may far outweigh the perceived benefits of the tax revenues that will be collected under the FTT regime.

We, the undersigned associations respectfully urge the Council of Ministers for Economic and Financial Affairs to re-visit the scope and structure of the FTT as currently proposed by the Commission in light of the detrimental effects that will accrue from its imposition. These are now becoming increasingly clear - not only in terms of economic impact, since there may also be political consequences with the EU's foreign trading partners, as a result of the FTT's extraterritorial effects.

Yours sincerely,

AILO	EACB	EBF	EFAMA	ERC
Alan MORGAN MOODIE CEO	Christian TALGORN President	Christian CLAUSEN President	Peter DE PROFT Director General	Godfried DE VIDTS Chairman

ESBG	FECIF	FESE	ICMA
François PEROL President	Vincent DERUDDER Chairman of the Board	Judith HARDT Secretary General	Martin SCHECK CEO